Behind the Markets: Looking at new economy real estate in December 2023

Published 27 December 2023

Christopher Gannatti, CFA
Global Head of Research

We recently spoke with Uma Moriarty, the Senior Investment Strategist and Global ESG Lead for CenterSquare Investment Management on Behind the Markets. WisdomTree has a relationship with CenterSquare, licensing the CenterSquare New Economy Real Estate UCITS Index for the WisdomTree New Economy Real Estate UCITS ETF (WTRE).

A wall of maturities coming in the real estate debt market

Let's face it—since the Global Financial Crisis of 2008-09, interest rates around the world have been very low, encouraging entities to take out more and more debt at a low cost. Now, a lot of real estate loans are maturing and interest rates are expected to be 'higher for longer', to take the popular expression. Uman noted that it's all about the underlying asset, that is, if the underlying asset is an old office in a secondary or tertiary market, then there are structural issues and holding that debt may not be beneficial. At the same time, if someone is looking at a multi-family home and the asset is performing, then debt taken out against it may not be as problematic.

Real estate for the modern economy data centres

Over time, people are shifting their preferences and behaviours and this is driving the importance of different, newer types of real estate. Data centres are a prime example. Globally, both businesses and individuals are consuming and storing more data than ever before. This trend is being accelerated in 2023 with the proliferation of large language models (LLMs) like GPT-4, LLAMA and most recently Gemini.

Uma discussed the difference between developing and training these models versus running them for live inference calculations. Developing and training can occur in secondary markets where power and land are less expensive. Read 'secondary' as meaning 'further away from major population centres.' When a model is deployed for inference, however, people want it to feel 'faster.' In technical jargon, this means that you want to minimise latency. One way to do this is to locate the data centres much closer to major population centres. There's only so much space and power in these areas, so the data centre real estate investment trusts (REITS) that have built platforms with lots of these assets located near major cities are extremely valuable and becoming only more so with the Cambrian explosion of artificial intelligence (AI) applications and LLMs.

Data centres are seeing increased rents, which is notable. Five years ago the supply coming online was very much aligned with the demand, but in today's world the demand is ramping up much faster. When

you wonder where all those Nvidia graphics processing units (GPUs) are being deployed, the answer is largely these data centres.

The day before we had our conversation with Uma, there was an article published in the Wall Street Journal noting that Blackstone and Digital Realty were teaming up to develop $7 billion in data centres[1].

Real estate for the modern economy ecommerce logistics centres

Uma spoke of Amazon as somewhat the 'gold standard' in how to set up a supply chain over an extended period of time that's led to consumers being able to place an order and receive it in as little as two hours (in some cases). Being able to do this has led to reconceptualising the supply chain and in many cases thinking of a larger number of smaller industrial spaces. If these spaces can be closer to the end consumers it makes the largest costs, labour and transportation, lower for companies seeking to provide ecommerce solutions to their customers. Over time, we will see the different solutions being invested in today being deployed, be it the potential for drones, autonomous vehicles or other technologies.

Uma noted that the supply of these smaller industrial spaces closer to customers is in decline, so the pricing of these pieces of real estate has been increasing and CenterSquare sees the potential for this to continue.

Real estate or the modern economy life sciences

Uma cited that in the United States, roughly 10,000 people turn 65 years old each day. Many societies are getting older and will need more and more healthcare solutions. Jeremy noted that he and I can work from anywhere and record podcast episodes like this from anywhere, but the innovations behind life sciences require very specific real estate.

During the week that we spoke to Uma, the Economist released an article discussing specific life sciences real estate[2]. We'd also note that one of WisdomTree's contrarian ideas for 2024 relates to biotechnology, a segment of megatrend investing that has underperformed in recent years; it may turn.

While data centres and ecommerce logistics real estate, per Uma's views, have seen a decreasing supply, life sciences real estate has experienced an increasing supply. This has led to a bit of a valuation discount in this area of new economy real estate, which could be an opportunity for investors with an expected growth acceleration in demand in the future.

Real estate is changing—investments should reflect these shifts

Real estate has been an asset class for a long time, but our relationship with CenterSquare is meant to provide investors with an option to shift real estate investments more in line with the types of real estate in demand today. For those wanting to learn more, click here to listen to the full episode.

[1] Source: Grant, Peter. "Blackstone, Digital Realty Team Up to Develop $7 Billion in Data Centers." The Wall Street Journal. December 7, 2023.

[2] Source: "American life-sciences firms are moving labs downtown." The Economist. December 7, 2023.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this

document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as

an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a separate class of shares (''Shares”) representing each fund. Investors should read the prospectus of WT Issuer (“WT Prospectus”) before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares.

WisdomTree New Economy Real Estate UCITS ETF

The Fund is not sponsored, endorsed, sold or promoted by CenterSquare Investment Management LLC (“CenterSquare”), any of its affiliates or any other third party involved in, or related to, calculating, compiling or creating the Index (collectively, the “CenterSquare Parties”). The Index is the exclusive property of CenterSquare and has been licensed for use for certain purposes by WisdomTree. CenterSquare and the Index's name are trademarks of CenterSquare. None of the

CenterSquare Parties makes any representation or warranty, express or implied, to the issuer or owners of shares of the Fund, or any other person or entity, regarding the advisability of investing in funds generally, or in the Fund particularly, or the ability of the Index to track its corresponding market performance. None of the CenterSquare Parties has any obligation to take the needs of the issuer or owners of shares of the Fund, or any other person or entity, into consideration in determining, composing or calculating the Index. None of the CenterSquare Parties is responsible for, or has participated in, the determination of the timing of, prices at, or quantities of the Fund to be issued or in the determination or calculation of the equation by, or the consideration into which, the Fund is redeemable. Further, none of the CenterSquare Parties has any obligation or liability to the issuer or owners of shares of the Fund, or any other person or entity,

in connection with the administration, marketing or offering of the Fund, whether as a result of statements included in the Fund's public offering documents or otherwise.

None of the CenterSquare Parties guarantees the accuracy and/or the completeness of the Index or any data included therein, and none of the CenterSquare Parties shall have any liability for any errors, omissions or interruptions therein. None of the CenterSquare Parties makes any warranty, express or implied, as to results to be obtained by the Fund, owners of the shares of the Fund or any other person or entity from the use of the Index, trading based on the Index, or any data included therein, either in connection with the Fund or for any other use. None of the CenterSquare Parties makes any express or implied warranties, and each expressly disclaims all warranties of merchantability or fitness for a particular purpose or use, with respect to the Index or any data included therein. Without limiting any of the foregoing, in no event shall any of the CenterSquare Parties have any liability for any special, punitive, direct, indirect or consequential damages (including lost profits) arising out of matters relating to the use of the Index, even if notified of the possibility of such damages.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

In Switzerland, this communication is only targeted at Qualified Investors.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: **https:** //www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any

subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe

for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.